

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 FRB-01 EB-03 CIAE-00 NSC-05

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TO SECSTATE WASHDC 8736

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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TREASURY DEPARTMENT WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 ROME 11054

LIMDIS

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E.O. 11652: GDS

TAGS: ECON, EFIN, IT, EC, IMF

SUBJECT: POST-ELECTION ECONOMIC ASSISTANCE TO ITALY

REF: (A) EC BRUSSELS 6458; (B) EC BRUSSELS 5483

SUMMARY. EMBASSY FORESEES MAJOR ROLE FOR EC IN ANY ECONOMIC ASSISTANCE TO ITALY. HOWEVER, IT BELIEVES THAT SPECIFIC APPROACH SUGGESTED BY EC COMMISSIONER HAFERKAMP (REFTELS) SHOULD BE DISCOURAGED FOR FOLLOWING REASONS: (1) IT IS PREMATURE TO PROPOSE NEW FINANCIAL ASSISTANCE TO ITALY
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BEFORE SOUND ECONOMIC PROGRAM HAS BEEN DEVELOPED; (2) EC WOULD BE PROCEEDING WITHOUT ADEQUATE COORDINATION HAVING BEEN DEVELOPED WITH IMF AND PERHAPS OTHER LENDERS; (3) APPROACH WOULD DEPEND UPON ACTION BY CARETAKER MORO

GOVERNMENT, WHICH IS NOT IN A POSITION TO MAKE SERIOUS COMMITMENTS; (4) PROPOSAL SEEMS AIMED AT LONGER RUN ECONOMIC REFORMS RATHER THAN FIRST PRIORITY FINANCIAL STABILIZATION PROGRAM; AND (5) SUGGESTION WOULD INVOLVE "NEW INSTITUTIONAL ARRANGEMENTS" WHICH COULD RAISE POLITICAL PROBLEMS. IN EMBASSY OPINION, NEW FINANCIAL ASSISTANCE TO ITALY MUST BE CONDITIONAL UPON FORMULATION OF GOOD ECONOMIC STABILIZATION PROGRAM, AS WAS MADE CLEAR TO ITALIAN DELEGATION AT PUERTO RICO MEETING. IT IS NOW UP TO ITALIANS TO DEVELOP SUCH A PROGRAM. END SUMMARY.

1. EMBASSY UNDERSTANDS THAT MAIN THEME OF TALKS WITH ITALIANS AT PUERTO RICO WAS THAT ANY ADDITIONAL FINANCIAL ASSISTANCE TO ITALY MUST BE STRONGLY CONDITIONAL UPON DEVELOPMENT OF GOOD ECONOMIC STABILIZATION PROGRAM AND THAT SOURCE OF ANY NEW ASSISTANCE SHOULD BE PRIMARILY MULTILATERAL. EC AND INDIVIDUAL MEMBER COUNTRIES WILL CERTAINLY HAVE IMPORTANT ROLE TO PLAY IN PERSUADING NEW GOVERNMENT TO PUT TOGETHER GOOD PROGRAM, IN ASSESSING ADEQUACY OF PROGRAM, IN EXTENDING ANY NEW FINANCIAL ASSISTANCE AND IN EVALUATING IMPLEMENTATION OF SUCH PROGRAM. HOWEVER, PRIME RESPONSIBILITY FOR DEVELOPMENT OF PROGRAM RESTS WITH ITALIAN GOVERNMENT. ALSO, FINANCIAL ASSISTANCE MUST BE CLOSELY COORDINATED WITH OTHER CURRENT AND POTENTIAL CREDITORS, ESPECIALLY THE IMF. IF EC COMMISSION WERE TO SEEM TO BE TOO ANXIOUS TO PROVIDE NEW ASSISTANCE, THIS WOULD RUN SERIOUS RISK OF REDUCING PRESSURES ON ITALIANS TO DEVELOP REALLY ADEQUATE PROGRAM.

2. IT IS MOST IMPORTANT THAT ALL FOREIGN OFFICIAL CREDITORS COOPERATE CLOSELY AND FROM THE START ON ANY ASSISTANCE EFFORT FOR ITALY, PARTICULARLY IF EFFORT TO MAKE FINANCIAL SUPPORT CONDITIONAL ON ECONOMIC STABILIZATION IS TO BE EFFECTIVE. WHILE SOURCES AND METHODS OF FINANCING OF ASSISTANCE ARE NOT YET DETERMINED, IMF, G-10 AND OECD MAY ALL BE INVOLVED, IN ADDITION TO EC
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COMMISSION AND INDIVIDUAL EC MEMBERS. IT WOULD BE REGRETTABLE IF EC COMMISSION SHOULD PREMATURELY MOVE AHEAD BEFORE METHOD OF COORDINATING FOREIGN ASSISTANCE FROM VARIOUS SOURCES IS WORKED OUT. VOLPE

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3. PRESENT LAME DUCK GOVERNMENT IS IN NO POSITION TO PROPOSE SPECIFIC ECONOMIC POLICY OBJECTIVES. AT BEST, IT CAN SIMPLY CONVEY MESSAGE OF PUERTO RICO SUMMIT TO POLITICAL PARTIES, BUSINESS AND LABOR, ENCOURAGE THEM TO MOVE FORWARD AS QUICKLY AS POSSIBLE ON STRONG ECONOMIC STABILIZATION PROGRAM, AND PERHAPS PREPARE DRAFT OUTLINE OF MAIN ELEMENTS OF STABILIZATION PROGRAM. IT IS NOT CLEAR AS YET HOW PROGRAM WILL FINALLY BE DEVELOPED. HOWEVER, EMBASSY KNOWS THAT SOME OF TOP CIVIL SERVANTS IN TREASURY AND BANK OF ITALY HAVE OUTLINED TO PRESENT GOVERNMENT LEADERS MAIN PARTS OF STABILIZATION PROGRAM, CONFIDENTIAL

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PRESUMABLY ALONG LINES PREVIOUSLY DISCUSSED WITH IMF AND EC STAFFS IN CONNECTION WITH PENDING IMF STANDBY AND CURRENT EC ECONOMIC POLICY CONDITIONS FOR 1976 ALSO, SOME ECONOMIC POLICY ADVISERS OF CHRISTIAN DEMOCRATIC PARTY (DC) INCLUDING NEWLY-ELECTED DC PARLIAMENTARIANS NINO ANDREATTA AND UMBERTO AGNELLI, ARE DOING SOME PAREPARATORY WORK ON POSSIBLE PROGRAM.

4. IT IS NOT CLEAR TO EMBASSY HOW VARIOUS IDEAS EMANATING FROM HAFERKAMP FIT TOGETHER. THERE SEEM TO BE THREE SEPARATE ASPECTS OF ECONOMIC PROGRAM: (1) FINANCIAL STABILIZATION POLICIES, E.G., MONETARY,

EXCHANGE RATE, FISCAL AND INCOMES POLICIES; (2) LONGER-TERM ECONOMIC AND SOCIAL REFORMS, E.G., SCHOOLS, HOSPITALS, ETC.; AND (3) BETTER COORDINATION OF TRADITIONAL FINANCIAL RESOURCES RECEIVED BY ITALY FROM EC, E.G., SOCIAL FUND, REGIONAL FUND, AGRICULTURAL FUND, ETC. IN EMBASSY VIEW, UNTIL ITALY'S PROBLEMS OF INFLATION AND BALANCE OF PAYMENTS ARE DEALT WITH, ITALY'S ECONOMIC GROWTH WILL BE INSUFFICIENT TO GENERATE RESOURCES NEEDED FOR IMPORTANT ECONOMIC AND SOCIAL REFORMS. THEREFORE, WE SHOULD NOT ENCOURAGE COMMISSION TO PRESS FOR THESE DESIRABLE REFORMS UNTIL IT IS CLEAR THAT THEY WILL NOT SIMPLY AGGRAVATE ITALY'S INFLATIONARY AND BALANCE OF PAYMENTS PROBLEMS. ON OTHER HAND, THERE MAY BE SOMETHING WHICH CAN BE DONE TO BETTER COORDINATE ITALY'S USE OF EC'S TRADITIONAL ASSISTANCE, SIMULTANEOUS WITH INTRODUCTION OF STABILIZATION PROGRAM. QUESTION CERTAINLY MERITS FURTHER STUDY.

3. EMBASSY IS SOMEWHAT CONCERNED BY HAFERKAMP'S REFERENCES TO "NEW INSTITUTIONAL ARRANGEMENTS" REGARDING IMPLEMENTATION OF ECONOMIC PROGRAMS IN ITALY. WHILE ITALIANS ARE FAIRLY WILLING TO TAKE ADVICE FROM THEIR FOREIGN PARTNERS, THERE IS STILL SOME DANGER OF ACCUSATIONS OF INTERFERENCE IN ITALY'S INTERNAL AFFAIRS. AS CONCERNS ECONOMIC STABILIZATION PROGRAM, ITALY DOES NOT NEED HELP IN DETERMINING NATURE AND EXTENT OF PROBLEM NOR IN IDENTIFYING TYPES OF SOLUTIONS REQUIRED. INSTEAD, PROBLEM IS ONE OF POLITICAL WILL AND POLITICAL CONSENSUS TO MAKE DIFFICULT ECONOMIC POLICY CHOICES AND CONFIDENTIAL

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TO IMPLEMENT THEM WITH DETERMINATION. THAT BEING SAID, FOREIGN CREDITORS SHOULD HAVE OPPORTUNITY THROUGH IMF, EC AND PERHAPS OTHER INTERNATIONAL BODIES TO INFLUENCE ECONOMIC STABILIZATION PROGRAM AS CONDITION FOR NEW ECONOMIC ASSISTANCE. ALSO USG AND MULTILATERAL LENDERS SHOULD TRY TO PERSUADE ITALIAN POLITICAL LEADERS TO SUPPORT STRONG ECONOMIC STABILIZATION EFFORT. MULTILATERAL APPROACH TO ANY NEW ASSISTANCE TO ITALY IS CLEARLY MOST POLITICALLY DESIREABLE, BOTH FOR LENDER AND FOR BORROWER. EMBASSY IS NOT CONCERNED THAT ITALIAN PUBLIC OPINION BE AWARE THAT FOREIGN LENDERS ARE EXERTING SOME PRESSURE ON NEW ITALIAN GOVERNMENT TO ADOPT GOOD ECONOMIC PROGRAM. HOWEVER, PRESSURE FROM OUTSIDE SHOULD BE EXERTED WITH MORE DISCRETION THAN SEEMS CONTEMPLATED BY COMMISSIONER HAFERKAMP AND PERHAPS OTHER EC OFFICIALS.

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